

I appreciated being able to hear the presentations concerning proposed models for the determination of a fair lender yield_the FFEL Program at our April 4 meeting.

As I review each of these models I am struck with the fact that the following issues are absent. Perhaps these issues will come to light once we get further into our study, however I feel they are important, and should be brought to the table for inclusion in our discussions.

1. ACCESS AND CHOICE

The loan programs were established to provide students the ability to attend the school of their choice. Whatever model is chosen, students *must* have the flexibility to attend the schools of *their* choosing.

Loan availability should not be restricted by sector, based on potential lender yields.

2. SCHOOLS' MARKET SHARE

Recruitment and enrollment management is a complex matrix within postsecondary administration. A major component of this matrix is the ability to provide students with financial aid packages that satisfactorily address the students' abilities to attend the institution of their choice. Loans make up a sizeable percentage of these packages.

Students and their school of choice need to know early in the decision-making process that loan funds are available, the participating lending institutions, and the terms of borrowing.

3. PROGRAMMING

Most postsecondary institutions have invested substantial moneys in administrative computer programming. Systems are in place to electronically handle the processing of loans.

If it were decided to adopt a model that would cause a change in lenders on (potentially) an annual basis, this would result in unnecessary major computer reprogramming costs (with the assumption that a change in lender would cause a change in servicer). Schools can ill afford to absorb these unnecessary costs.

4. RECENT PRODUCT DEVELOPMENT

The model we select should help to advance product development in the loan industry.

In the past five years the FFEL industry has made major overhauls to its methods of loan processes and delivery. One recent enhancement is the implementation of the Master Promissory Note (MPN). For the most part, under the current provisions of MPN, a student signs one promissory note for his/her college career unless he/she changes lenders. If we adopt a model where the multi-year option of the MPN can not be used we will be forcing the loan industry to take a step backwards in its delivery methods.

5. CONSOLIDATION

An underlying assumption of several of the models presented is ‘all students will consolidate their loans to achieve one repayment schedule’. Not all students want to consolidate their loans. One of the drawbacks of consolidation is the forfeiture of certain deferment benefits that a student is entitled to under the initial promissory note (e.g., military, teacher shortage, internship, childcare, parental care).

We need to adopt a model that will not prevent students from utilizing all of the rights they are entitled to under the loan programs.

6. COMPETITION IS GOOD

Competition is an important factor in any industry. Competition makes participants work efficiently and be creative in the products being offered. Competition helps to evolve an industry and enables it to respond to the needs of its customers.

The recent Microsoft court ruling is an example of how a single controlling vendor can [mis]direct the course of an industry. It is important to the publics served by student loan funds that the entities in the loan industry do not appear in collusion.

7. LESSONS LEARNED FROM HEAL

It was stated during our April 4 meeting that the ‘rights auctions’ caused major problems for the HEAL program. We need to take a serious look at what happened to the HEAL program so we do not make the same mistakes.

8. FAIR INITIAL INTEREST RATES TO ALL

The attractiveness of the current loan program is that all students have access to educational loan funds, at a low rate of interest, no matter their financial situation or the type of institution they attend.

Not all students have enough savvy to negotiate their own interest rates. Many do not possess knowledge of interest works let alone how to negotiate a fair rate. For the majority of students this will be their first experience in borrowing.

It is questionable whether financial aid administrators will feel comfortable negotiating rates for their students. The discussion at our April 4 meeting implied that schools are actively negotiating rates for their students every day through the mere fact they utilize preferred lender lists. This assumption is not accurate.

Schools are not negotiating an interest rate when putting together preferred lender lists. They are providing their students information concerning lenders who have a sound track record of service. Some lenders may offer ‘interest rate reductions’, but the student negotiates this after they have entered repayment and have met the lenders’ ‘enrollment’ requirements (e.g., automatic account withdrawals; 48 on-time monthly payments.)

Several models encouraged different loan rates/funds availability based on types of students; students could be unduly discriminated.

9. ENROLLMENT TRENDS

Our model needs to keep in mind the demographic make up of future loan borrowers. According to the U.S. Department of Labor, 'between now and the year 2010, only about 30 percent of new jobs and 23 percent of all job vacancies are predicted to require a four-year college degree'. That's a large percentage of college students who fall into the category of 'less profitable return on loans' category.

10. INTEREST SUBSIDIES

The intent of interest subsidies is to provide needy students a 'break' while they are obtaining their education and work skills. Whatever plans we adopt should not reduction or change the in-school interest subsidy currently allowed to needy students (based on their EFC and the school's packaging philosophies). The IDEA plan proposes the elimination of the interest subsidy for graduate students. This elimination could be a great disservice for economically disadvantaged students.

11. DIRECT LOAN PROGRAM

The directive of the study is to determine the fair lender yield in the loan program. Lenders do not presently participate in the Direct Loan Program. Whatever proposals are considered, none should jeopardize the current Direct Loan Program. Not only does it foster competition, but the schools participating in the Direct Loan Program are generally very satisfied with the service provided to students and parents.

That said, whatever benefits are deemed acceptable for the FFEL Program should also apply to the Direct Loan Program. If the FFEL Program borrowers pay less in interest, origination fees, etc. Those benefits should be available for both programs.

RECOMMENDATIONS

In addition to these points there are two recommendations I would like to submit:

1. The present delivery system should be considered as one of the models we include in our study.

- a. It provides access of loans to all types of students and schools.
 - b. It allows many lenders the ability to compete for loan business.
 - c. Students benefit from the competition of this model.

2. Art Hauptman's model should be considered.

The purpose of this study is to determine what is a reasonable "fair lender yield" and identify a mechanism to use for its calculation. We need to study how the "yield" is earned and the associated costs of conducting business.

Operating costs should be included in any model we consider. Mr. Hauptman made the recommendation that loan sale trends should be reviewed to determine if the subsidies are appropriate. This cannot be treated as a stand-alone factor. We also need to consider the operating costs associated with the purchasing and servicing of loans. These elements were not included in the U.S. Treasury or CBO reports. They are important elements in determining 'what is a reasonable subsidy'.

Respectfully,

Laurie A. Wolf
Director, Enrollment Management
Des Moines Area Community College